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DEPT FOR NEA/ARP AND EEB

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SUBJECT: FINANCIAL CRISIS CATCHES UP WITH SAUDI MARKETS

Classified By: Deputy Chief of Mission David Rundell, reasons 1.4 (b) and (d).

11. (C) Summary: The Saudi stock market (the Tadawul) declined more than 16 percent October 6 - 7. The 9.8 percent drop on October 6 was the largest ever single-day fall in percentage terms. The Tadawul is famous for its volatility, and although this recent drop is likely due to skittishness afflicting foreign markets, the Tadawul's historic performance has been correlated to the price of oil. End summary.

Saudi market drops sharply  
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12. (C) The Saudi stock market (the Tadawul) declined more than 16 percent October 6 - 7, and volatile trading continued October 8. The 9.8 percent drop on October 6 was the largest ever single day fall in percentage terms. Year-to-date, the Tadawul All Shares Index (TASI) was down 47.9 percent despite strong domestic economic performance fuelled mainly by high oil prices. Nevertheless, that drop is from a spike that peaked in January -- the index is down only 4.5 percent from a year ago. Several major Saudi banks have made efforts to increase investor confidence, publishing statements on the Tadawul's website asserting that they are not exposed to the current mortgage crisis in the U.S., but so far with little effect.

Tadawul famously volatile  
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14. (C) Recent declines in the TASI have been attributed to the international financial crisis and to the recent drop in the price of oil, but the Tadawul has a history of high volatility and rampant speculation. Between 2003 and 2006 the TASI increased 563 percent, and then dropped almost 70 percent between February 2006 and February 2007. We attribute that drop to a speculative bubble bursting, since neither the dramatic rise nor the subsequent drop can be directly linked to the Kingdom's economic or political situation. During 2003 and 2004 a spate of terrorist attacks throughout the country should have hurt investor confidence; and in 2006 and 2007 the almost complete cessation of these attacks should have boosted the market.

Big rebound unlikely with  
oil down from price peak  
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15. (C) Comment: Historically, the Tadawul's value has correlated with the price of oil, and although its most recent plunge is likely tied to international events, we expect lower oil prices to hamper the quick return of Saudi money to the market. Nevertheless, numerous banking sector and government contacts have assured the Embassy that Saudi financial institutions have little exposure to the mortgage

crisis in the U.S. and despite significantly lower oil prices, the Kingdom is on track to show substantial real economic growth for 2008 (between five and six percent). For their part, however, Saudi investors have clearly been spooked by recent turmoil in global capital markets. Until a few days ago, newspapers were full of assertions from business leaders and government officials that the Saudi financial markets would be immune to the current disruptions in other countries since among other reasons the country's patrimony (its vast oil reserves) remained not in some foreign bank but safely buried under the country's desert sands. In the last few days, those headlines have been replaced by more dire forecasts.

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